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Suite 1020
1401 H Street, N.W.
Washington, D.C. 20005
Office 202/326-3821
Fax 202/326-3826

Lynn Shapiro Starr
Vice President
Regulatory Affairs

March 8, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

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MAR 8 1999

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

Re: **Ex Parte Statement**
CC Docket 98-141

Dear Ms. Salas:

On March 5, 1999, Tom Reiman, Senior Vice President - Public Policy for Ameritech, Zeke Robertson, Senior Vice President - FCC for SBC, and I attended the FCC's Local and State Government Advisory Committee meeting ("LSGAC") at LSGAC's invitation.

Ameritech and SBC were invited to make a presentation concerning their proposed merger. The substance of the presentation is reflected in the attached document.

Should any questions arise in connection with this notice, kindly contact the undersigned.

Sincerely,

Attachment

cc: Rosalind Allen, OPP
Kenneth Fellman, Chair, LSGAC
Zeke Robertson, SBC

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List A B C D E

Outline of SBC Communications Inc.
March 5, 1999 Presentation to
FCC Local and State Government Advisory Committee

I. Why Merger Is Necessary

- A. **Change:** The telecommunications market is changing rapidly and fundamentally.
1. ***Fundamental shifts in regulation:*** Across the United States (and in the rest of the world), the exclusive telephone franchise has been eliminated. In reaction, there is a new competitive marketplace.
 2. ***Globalization of all major markets:*** On both the supply and demand side, telecommunications is fast becoming a global marketplace. Major U.S. corporations will either meet the globalization challenge successfully or surrender their competitive positions to others that meet it better.
 3. ***Rapid evolution of customer demand for seamless, bundled, end-to-end service:*** Not only is demand itself growing (at double and triple-digit rates), customers of every size are now seeking bundled services and single-source providers.
 4. ***Increasingly strong economies of scope and scale:*** The economies of scale and scope of network industries, always powerful, are growing stronger as the infrastructure of telecommunications networks becomes more dependent on computer technology, software and the overall management of technical know-how and marketing knowledge.
- B. **Competition:** SBC and Ameritech's competitors see these same changes, and are responding as we are.
1. The MCI/WorldCom/MFS/Brooks Fiber/UUNet conglomerate just completed its fourth major acquisition in less than three years. In nationwide and worldwide advertisements, MCI WorldCom declares that it now stands *alone* in its ability to offer a fully integrated, end-to-end package of services over a single global network.
 2. AT&T followed up on its acquisitions of McCaw and Teleport (TCG) with acquisitions of TCI and Vanguard Cellular, announced a joint venture with BT and recently announced a deal with Time Warner to provide telephony over cable.

3. Sprint has forged an alliance with France Telecom and Deutsche Telecom and is rolling out its Integrated On-Demand Network (ION) nationwide and asserts that it "is [the] first to deliver to businesses [a] single network for voice, data and video."
 4. Bell Atlantic is seeking to merger with GTE.
 5. CLECs boast of their services: Teligent serves 19 markets and has 40 slated by year's end; Frontier proclaims that it has "one of the largest footprints in the industry, offering integrated local, long distance and data services to approximately 70 percent of the U.S. business population."
- C. **SBC and Ameritech Must Respond to The Forces Reshaping the Telecommunications Industry:** SBC and Ameritech's decision to join forces in order to be able to pursue their National-Local and global strategy (described in Section II below) responds to the same forces that are reshaping every major player in the industry. In our business judgment, the best interests of our customers, employees and shareholders cannot be advanced — cannot even be protected — by a strategy of trying to stand still as a stay-at-home regional player.
- D. **SBC and Ameritech Need to Retain a Critical User Base:** It is critical for us to be able to compete for those customers who are responsible for a very large and disproportionate share of telecommunications revenues. We are, and will be, able to provide low-cost, universal service to residential users over state-of-the-art networks only to the extent those networks continue to be shared with anchor business tenants. We must engage in the National-Local Strategy (described in Section II) to retain these customers.
1. Neither SBC nor Ameritech can compete for customers who want national and global service if they continue to be regional carriers.
 2. Our competitors have responded to this need to compete for customers interested in national and global services — primarily via acquisitions (*e.g.*, WorldCom/MCI/MFS/Brooks/UUNet, AT&T/TCG/TCI)
 3. SBC must respond accordingly (*i.e.*, through the combination of resources this merger represents)

II. **Benefits of Merger**

A. **More Jobs and Money for Local Economies**

1. **Money for Local Economies:** Over 10 years, SBC plans on spending over \$23 billion dollars on the new competitive ventures.

2. **More Jobs:** Within 10 years, over 8,000 new SBC employees will be engaged full-time in out-of-region competition. (3,000 new jobs have been created in California since the close of that merger. Employee benefits have increased as well, including stock options and matching contributions to employee savings plan.)

Moreover, both the Communications Workers of America and the International Brotherhood of Electrical Workers strongly support the merger.

3. **Overall Local Benefits:** The merger of SBC and Ameritech will benefit local economies throughout the new SBC's service area. The strength and resources of the combined company will permit investment in an expanded range of new and enhanced services, which will result in increased local spending, the addition of new jobs and a resulting increase to the local tax base. An overriding benefit to in-region ratepayers will be the ability of the new SBC to compete successfully to retain multi-location business customers, and thereby avoid losses of high volume customers. Such losses can lead to disinvestment and/or rate increases in order to cover fixed costs.

B. Local Competition: The National-Local Strategy

1. **Local Competition by SBC:** Through its National-Local Strategy, SBC/Ameritech will execute an unprecedented plan to compete with incumbent local exchange carriers — and provide a competitive market for the provision of local telephone service.
 - a. **SBC Will Enter at Least 30 Markets, Creating Competition for Tens of Millions of Residences and Businesses in all Major Incumbent LEC Territories:** The combined SBC/Ameritech will provide competitive local service in at least 30 local markets outside the present SBC and Ameritech regions. (SBC's current plans contemplate installing facilities in most of these markets within 1.5 years of closing and fiber within 2 years. We are also considering adding markets over the first 30.) The 30 markets we plan to enter contain 70 million people and 18 million business lines. (SBC will enter markets representing 70 percent of Bell Atlantic's business lines, 60 percent of US West's business lines and 50 percent of BellSouth's business lines, and we are already positioned to challenge 40 to 50 percent of GTE's business lines (in California and Texas).)

NOTE: In the proposed Ohio agreement, SBC has committed to compete (for at least 3 years) in four Ohio markets where Ameritech does not currently provide service:

Cincinnati, Lebanon/Mason, Hudson/Twinburg and Delaware. This adds at least 3 more markets.

- b. SBC Will Compete for Residential Customers (and Small Businesses), Not Just Large Business Customers: SBC will compete not only for large business customers, as many companies now do, but also for medium-sized and small business — **and, most importantly, residential customers.** Moreover, SBC's residential competition will benefit consumers across all income groups — high, medium and low income. SBC's information shows that the percentage of low-income customers who are high users of telecommunications services is essentially the same as the percentage of high-income customers who are high users of telecommunications services. It also shows that low-income residential customers are physically proximate to the facilities of the large and mid-size business customers that are necessarily a major cornerstone of the National-Local Strategy. Thus, low-income residential consumers can readily be served through a combination of existing facilities and the expanded facilities SBC plans to deploy in the 30 new markets it will be entering. The installation of switches, fiber and other facilities to serve large and mid-size customers in those 30 markets can and will enable SBC readily to provide service to residential customers, including low-income and minority customers.
 - c. There Will Be Significant Financial and Service Benefits for Consumers: If this competition reduces local service rates in the 30 markets by even one percent, small businesses and residential households *alone* would save approximately \$118 million annually, with over half of the savings realized by residential customers. The merger will also make the long distance and bundled markets more competitive.
2. **Local Competition in SBC and Ameritech Regions:** SBC's entry into other carriers' territories should cause these carriers to compete in SBC's region, in order to maintain their business customers. When we make mass market customers a pillar of our competitive strategy, our competitors will have to follow suit or risk losing that large additional pool of revenue. AT&T and TCI announced their plan to merge soon after ours; Bell Atlantic and GTE followed soon after that. Both informed the Commission that through their mergers they would intensify their efforts to compete in SBC and Ameritech's regions.

- C. **Better Services for Customers:** The merger will enhance SBC's ability to innovate, compete and improve our products and services in the 13 states SBC and Ameritech already service.
1. **Faster Deployment of Advanced Services:** New services will move through research and development and into customers' homes much faster and more economically. SBC is also strongly committed to the deployment of DSL, which will compete with cable to supply residences and businesses with high-speed Internet access.

After the merger, Ameritech customers will also benefit from Ameritech's access to the resources, services and information of SBC's advanced services research and development subsidiary, TRI, which has over 300 employees. Ameritech has no equivalent subsidiary.
 2. **More Advanced Services:** Services that currently go undeveloped because of high start-up costs will roll out to customers because the larger number of potential users for such services will support higher research, development and upfront costs.
 3. **Better Services:** With geographic expansion, SBC will link customer service centers, providing more personnel to handle requests and shorter response times. SBC will also be able to enhance its multilingual customer support.
 4. **Investment in Network:** SBC's ability to retain large customers through its National-Local Strategy will allow it to maintain its strong investment in its overall network.
- D. **Economic Benefits to Company:** There will be benefits such as (1) procurement savings, (2) consolidation efficiencies (marketing, business development and planning and real estate) and (3) implementation of best practices.

The benefits will accrue to the combined company's existing network and customer base (enhance and expand services to existing customers) and allow for investments in new local markets.
- E. **New International Entry (and Strategic Asset):** SBC will extend its networks to follow its large customers into international markets. SBC plans to enter 14 major foreign local markets after the merger (and these plans call for 3,500 new employees). This will provide direct benefits to U.S. companies doing business overseas; will facilitate international trade; and will improve United States competitiveness. Moreover, benefits will be brought to the foreign country: better quality of life; ability to better unify economy; ability to allow greater participation in global economy; increased efficiencies in economic production and distribution; and improved services (including

emergency services).

Moreover, telecommunications has long been recognized as a strategic asset for U.S. national and international interests, and the merger will serve the national interest by adding one more viable U.S. player to the small group of contenders that can seriously aim to compete on the global scale.

- F. **Past Experience Show Benefits Will Occur (Benefits of Telesis Merger):** The SBC/Pacific Telesis merger has resulted in improved service, the introduction of new products, the improvement of networks and approximately 3,000 net new jobs in California since the close of the merger. Local service prices have not increased; repair times have reduced an average of 60 percent; repair and business office answering times have improved significantly; and SBC has introduced a host of new services (such as Caller ID with name delivery, on-demand features (such as pay-per-use three-way calling) and enhanced Internet services with lower ISDN rates).

III. **Merger is Necessary in Order to Realize All of these Benefits**

- A. **Personnel Resources:** Neither SBC nor Ameritech alone has the management depth to implement the National-Local Strategy. Moreover, it is difficult to find employees now, with low unemployment and high demand for telecommunications personnel. The National-Local Strategy requires 8,000 employees and there are 2,500 unfilled SBC management openings today.

SBC alone would have to devote 16 percent of its managers; Ameritech alone would have to devote 36 percent of its managers. Together, they need devote only 8 percent of their managers for the National-Local Strategy.

- B. **Risk:** Entering so many markets would be too risky for either company individually. The merger allows the costs of the Strategy, and the attendant earnings impact, to be spread over a much larger customer and shareholder base. Established companies like SBC and Ameritech are valued by financial markets based on their earnings performance, and neither alone would accept the earnings dilution that would accompany implementation of the plan.
- C. **International Competition:** Neither SBC nor Ameritech individually can now effectively compete for large business customers with the larger European and Japanese telecommunications companies in their home countries. Moreover, such foreign carriers with enormous resources will soon be among those vying to serve the high-growth, high-profit telecommunications market of multinational corporations.
- D. **Need Bigger Base; There Is No Sense in Trying Something Smaller:** It doesn't make business sense for either SBC or Ameritech on its own to try a national-local strategy on a more incremental basis, entering fewer markets more slowly. The success of the new strategy pivots on economies of scale

and scope and a rapid national and global reach. Moreover, starting from a smaller base would increase the cost and risk of the strategy prohibitively. It also would increase the number of markets which would need to be entered and decrease the customer base to follow into new markets.

The critical base of customers with national and global operations will not give their business to providers who offer service in just a few markets, with a promise of more to come at some distant date down the road. Carriers (SBC) need to reach a critical mass of customers to follow and be able to offer a critical mass (percentage) of their services.

IV. Widespread and Diverse Support for Merger

- A. **Ameritech's Cable Jurisdictions:** SBC and Ameritech have filed Form 394 cable applications seeking consent to the SBC-Ameritech transaction in over 80 jurisdictions where Ameritech New Media (an Ameritech subsidiary) holds cable franchises. Not a single such jurisdiction has rejected the application. In fact, to date, over 70 of the 83 jurisdictions which received the Form 394 application have approved it, either through an explicit resolution or ordinance or through expiration of the 120-day limit established by the Communications Act and FCC rules, and almost all of the ANM franchise agreements granted since the Form 394s were filed with other jurisdictions contain provisions which preapprove the transaction.

B. **State and Federal Officials**

Letters of support were also filed by a number of state and federal legislators and government officials:

- Wisconsin state representatives Jeff Plale; Antonio R. Riley; Tim Hoven (Chairman of the Wisconsin State Assembly Utilities Oversight Committee); Steven Foti (majority leader).
- Illinois state representatives Shirley M. Jones (Chairperson of the Illinois House Public Utilities Committee) Jay Ackerman (minority spokesman and former Chair of the Illinois House Public Utilities Committee), Bruce A. Farley; Illinois State Senator William F. Mahar (chairman of the Illinois Senate and Environment Committee)

Illinois Secretary of State George H. Ryan

- U.S. Representative Jim Barcia (Mich.)
- C. **Unions:** Labor groups like the CWA have supported the merger. In supporting the merger, CWA stated that the "merger will benefit both consumers and workers" and that "workers will benefit from the over 8,000 new, high-quality jobs that the merged company will create in entering new

markets.” The merger is also supported by the International Brotherhood of Electrical Workers.

- D. **Rainbow/PUSH and NAACP Branches:** Rainbow/PUSH — a nationally recognized advocacy organization dedicated to equality and economic, moral and political empowerment for African-American citizens and traditionally underprivileged communities — endorsed the merger after a seven-month independent review. Rev. Jesse Jackson, leader of Rainbow/PUSH said the merger “promises to deliver the benefits of growth in the telecommunications industry to consumers, workers, small business and big business alike,” adding, “[t]hese companies are truly concerned about implementing corporate practices that favor workers and consumers, create employment opportunities and foster small business growth.”

Moreover, (1) the president of the Wisconsin State NAACP Conference of Branches, (2) the president of the Cleveland Branch NAACP, (3) the president of the Indianapolis Urban League, (4) the president of the Milwaukee Urban League, (5) the National Association of Commissions for Women, (6) the president of the Illinois State Conference of Branches of the NAACP, (7) the president of the League of United Latin American Citizens (the older and largest membership based Hispanic civil rights organization in the United States), and (8) the Illinois Association of Urban League Executives filed with the Commission letters expressing support for the merger

- E. **Corporations and Educational Institutions:** Corporations such as Abbott Labs, Amoco Production Co., Bank One, Compaq Computer Corp., Emerson Electric Co., Levi Strauss, Shell Oil Co., Travelers Group and the University of Illinois have written to the Commission in support of the merger.

V. Next Steps

A. **The Advisory Committee Should Promptly Support the Merger**

1. **Local Benefits:** As described previously, the merger provides strong benefits for local consumers (both residential and business customers), local workers and local economies.
2. **Maintains Strength of Companies and Infrastructure:** Moreover, the merger positions SBC and Ameritech to provide national and global services to anchor customers throughout the country, allowing the combined company to maintain its strong financial base and thereby invest in and improve the telecommunications infrastructure and services for all of its customers.
3. **Market Should Be Allowed to Decide:** The marketplace should be allowed to decide who the major national and global

telecommunications carriers will be, and SBC and Ameritech should be allowed to compete with carriers such as AT&T and MCI WorldCom. Through marketplace competition, the best services will be provided to customers.